

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BERN

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AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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DEPARTMENT PASS TREASURY, FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, UK

SUBJECT: HEALEY ON PUBLIC SPENDING

BEGIN SUMMARY: THE CHANCELLOR OF THE EXCHEQUER CANDIDLY
DESCRIBED THE CONSTRAINTS PREVENTING FURTHER INCREASES IN
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GOVERNMENT SPENDING TO A NOVEMBER 11 MEETING OF THE PARLI-

AMENTARY LABOUR PARTY. HE SAID THAT CUTS WOULD BE MADE IN CURRENT PLANNED EXPENDITURE OVER THE 1977-79 PERIOD WHILE NO INCREASE WOULD BE ALLOWED FOR THE FISCAL YEAR STARTING APRIL 1, 1976. END SUMMARY.

1. SPEAKING AT A NOVEMBER 11 MEETING OF THE PARLIAMENTARY LABOUR PARTY, CHANCELLOR HEALEY DWELT ON THE NEED TO REDUCE GOVERNMENT SPENDING AND APPEARED TO TAKE THE GOVERNMENT A STEP CLOSER TO THE INTRODUCTION OF SELECTIVE IMPORT CONTROLS (SEPTTEL).

2. MR. HEALEY ALLUDED TO A SITUATION WHERE THE SCOPE FOR INCREASED PUBLIC EXPENDITURES IS LIMITED BOTH BY RECESSION AND THE NEED FOR INCREASED RESOURCES BY INDUSTRY FOR INVESTMENT AND EXPORT. THEREFORE, ANY RISE IN EXPENDITURE COULD ONLY BE FINANCED BY HIGHER TAXES ON THE AVERAGE WORKER. ACCORDING TO MR. HEALEY, JUST TO HOLD EXPENDITURE IN FISCAL 1977/78 AND 1978/79 AT THE PLANNED 1976/77 LEVEL WOULD REQUIRE THE AVERAGE WORKER EFFECTIVELY TO PAY 50 PERCENT OF EVERY POUND IN EXTRA WAGES TO THE GOVERNMENT EITHER IN TAXES OR CONTRIBUTIONS. THIS WAS CLEARLY NOT FEASIBLE. THE ONLY ALTERNATIVE WAS TO CUT PUBLIC EXPENDITURES OVER THE 1977-79 PERIOD. THE CHANCELLOR ALSO SAID THAT THERE WERE SIGNS THAT THE RECESSION WAS "BOTTOMING OUT", BUT HE COULD NOT MOVE TOWARD REFLATION UNTIL "THE SUCCESS OF THE 6 POUND LIMIT IS FULLY ESTABLISHED IN THE MINDS OF THOSE AT HOME AND ABROAD ON WHOSE CONFIDENCE OUR ECONOMY DEPENDS." HE ESTIMATED THAT THE GOVERNMENT BORROWING REQUIREMENT WAS NOW RUNNING AT ABOUT 20 PERCENT OF ANNOUNCED EXPENDITURE LEVELS, A PURPOSEFULLY VAGUE ESTIMATE COMPATIBLE WITH BORROWING REQUIREMENTS BETWEEN 9 AND 13 BILLION POUNDS.

3. HE DESCRIBED THE BORROWING REQUIREMENT AS A SEVERE RESTRAINT ON REFLATION. WHILE PRIVATE DEMAND FOR CREDIT WAS LOW, THERE WAS NO QUESTION OF "CROWDING OUT" RESULTING FROM THE NEED TO FINANCE SUCH A DEFICIT. BUT, HE WAS QUOTED AS SAYING, "WE SHALL HAVE TO CUT DRASTICALLY THE PUBLIC SECTOR DEFICIT WHEN RECOVERY GETS UNDERWAY, OR WE SHALL BE UNABLE TO FINANCE IT WITHOUT EITHER RAISING IN-

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TEREST RATES TO LEVELS THAT WOULD CHECK THE RECOVERY IN INDUSTRY, OR PRINTING MONEY, AND SO REFUELLING INFLATION"

4. COMMENT: THE CHANCELLOR WAS REPLYING TO INCREASINGLY VOCIFEROUS LEFT-WING LABOUR PARTY CRITICISM OF THE GOVERNMENT'S ECONOMIC POLICY. HE REMINDED HIS CRITICS THAT THEY HAD AGREED THAT INCREASED INVESTMENT WAS ESSENTIAL TO A RECOVERY OF BRITISH INDUSTRIAL PRODUCTION. THE RE-

SOURCES FOR SUCH INVESTMENT HAD TO COME FROM SOMEWHERE
AND THE ONLY POSSIBILITY FOR THIS WAS PUBLIC EXPENDITURE.
THE PRIME MINISTER AND THE CHANCELLOR HAVE BEEN PREPARING
THE PUBLIC FOR THE ECONOMIC PINCH STEMMING FROM DECLINING
REAL INCOMES. AT THE SAME TIME THEY ARE TRYING TO RE-
TAIN VITAL TRADE UNION SUPPORT WHILE FURTHER ISOLATING
CRITICS ON THE LABOUR LEFT. IT REMAINS TO BE SEEN WHETHER
THE MOMENTUM BEHIND THE 6 POUND WAGE LIMIT IS STRONG
ENOUGH TO GIVE THE GOVERNMENT TIME TO EASE THE COUNTRY
INTO A SECOND PHASE OF THE INCOMES POLICY IN AUGUST OF
NEXT YEAR.

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